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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Probable Effects of Most Favored Nation Treatment  
On Soviet Exports To The United States*

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
May 1970

INTELLIGENCE MEMORANDUM

Probable Effects Of Most Favored Nation Treatment  
On Soviet Exports To The United States

Introduction

Trade by the United States with the USSR is a small fraction of both US and Soviet foreign trade. It is inhibited by many diverse factors, among other things by more stringent export controls and credit terms than those of our Western allies on the export side and by lack of most favored nation (MFN) treatment, on the import side. A recurring theme in Soviet propaganda is the necessity for the United States to end its discrimination by restoring MFN treatment to the USSR, thereby enabling the latter to earn more in this country and, consequently, to increase Soviet imports from the United States. This memorandum traces the development of US-Soviet trade since the US revocation of MFN treatment of Soviet goods in 1951, and assesses the likely impact of the restoration of MFN status to the USSR.

Background

1. Current US legislation denies MFN status to imports from most Communist countries including the USSR. Soviet goods are subject to the high rates established by the Tariff Act of 1930 and are denied the substantial reductions from these rates negotiated since 1934. MFN treatment was first extended to the USSR in 1935; in accordance

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with the Trade Agreements Extension Act of 1951 it was withdrawn from the USSR and other Communist countries and has not been restored to the USSR to date.

2. In addition to the denial of MFN treatment to the USSR, other actions arising from the cold war and the Korean conflict served to reduce the volume of US-Soviet trade. The Trade Agreements Extension Act also called for the embargo of several varieties of Soviet furs.\* The Foreign Assets Control regulations of 1950, forbidding US commercial and financial transactions with the Communist Far East, also barred so-called Chinese-type goods sold by the USSR as presumptively of Chinese origin, such as bristles. Moreover, the United States stopped buying Soviet crabmeat because it was found that this product was produced by slave labor.\*\* During this period the volume and composition of US imports from the USSR were also affected by reduced Soviet shipments of manganese and chrome ores and asbestos, apparently in retaliation for US export controls imposed in 1949. US imports from the USSR fell sharply after 1948, as indicated in Table 1.

3. The extent of the decline in US imports from the USSR attributable to the withdrawal of MFN treatment does not appear to have been as significant as other factors. As indicated in Table 2, furs were duty free and the decline in imports was attributable to the embargo; US imports of manganese and chrome ore had fallen to zero before the withdrawal of MFN treatment (the latter is duty free). In fact, the only item of significance which was apparently affected by the withdrawal of MFN treatment was tobacco. Many commodity imports which declined or disappeared by 1952 were either duty free, or the differential\*\*\* between the 1930 and the MFN rates was negligible or nonexistent. The revocation of MFN treatment

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\* The furs are ermine, fox, kolinsky, mink, marten, muskrat, and weasel.

\*\* Rescinded in 1961.

\*\*\* The term differential as used in this memorandum means the differential between the 1930 (Hawley-Smoot) rates and the MFN (GATT) rates.

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Table 1  
US Trade with the USSR

<u>Year</u>	Million US \$ <u>a/</u>	
	<u>Exports</u> <u>b/</u>	<u>Imports</u> <u>c/</u>
1948	27.9	86.8
1949	6.6	39.2
1950	0.8	38.3
1951	Negl. <u>d/</u>	27.4
1952	Negl. <u>d/</u>	16.8
1953	Negl. <u>d/</u>	10.8
1954	0.2	11.9
1955	0.3	17.1
1956	3.8	24.5
1957	4.5	16.8
1958	3.4	17.5
1959	7.4	28.6
1960	39.3	22.6
1961	45.6	23.2
1962	20.2	16.1
1963	22.9	21.2
1964	146.7	20.7
1965	45.2	42.6
1966	41.7	49.6
1967	60.2	41.2
1968	57.5	58.4

a. Derived from US data, rounded to the nearest \$100,000.

b. Including re-exports.

c. F.O.B., general imports.

d. Less than \$100,000.

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Table 2  
US Imports from the USSR

	Value in Million US \$					Tariff Rate <sup>a/</sup> (Percent)	
	1948	1949	1950	1951	1952	1930	MFN <sup>b/</sup>
<i>Total c/</i>	86.8	39.2	38.3	27.4	16.8		
Sausage casings	0.9	1.1	1.0	0.7	0.5	Free	Free
Caviar, not boiled	0.3	0.4	0.3	0.3	0.3	30	30
Crabmeat in airtight containers	0.4	1.0	2.3	--	--	22.5	22.5
Furs, undressed	39.0	23.9	19.9	21.1	12.0	Free	Free
Of which:							
Embargoed furs	9.1	5.7	6.3	7.7	0.1	Free	Free
Furs, dressed and manufactured	1.7	1.3	1.3	1.4	0.3	35	17.5
Bristles	0.2	0.3	0.1	Negl.	0.8	3	1
Feathers, crude	0.1	0.1	0.2	0.1	0.1	20	20
Animal hair, unmanufactured	0.5	0.4	0.4	0.1	0.3	Free	Free
Licorice root	0.2	0.4	0.4	0.4	0.5	Free	Free
Essential or distilled oils	0.3	0.3	0.7	0.2	0.2	Free-30	Free-10
Tobacco, cigarette leaf, unstemmed	2.1	1.9	2.5	5.3	Negl.	41	15
Cotton linters and cotton waste	2.5	1.0	1.7	1.4	1.0	Free	Free

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Table 2  
US Imports from the USSR  
(Continued)

	Value in Million US \$					Tariff Rate <sup>a/</sup> (Percent)	
	1948	1949	1950	1951	1952	1930	MFN <sup>b/</sup>
Asbestos, unmanu- factured	2.0	0.2	0.1	0.2	--	Free	Free
Diamonds, cut but not set	0.8	0.5	0.2	--	--	10	8-10
Manganese ore	8.2	3.8	2.1	0.1	--	32	8
Chrome ore	14.0	3.9	2.2	--	--	Free	Free
Platinum group metals	1.8	--	1.0	0.3	--	Free	Free
Glycerine, crude	--	0.4	0.9	0.2	--	3	1
Potassium chloride, crude	0.8	--	0.6	--	--	Free	Free
Other goods	10.5 <sup>d/</sup>	1.6	2.8	0.4	0.7	N.A.	N.A.

a. Tariff rates are expressed as ad valorem equivalents for items on which specific duties are imposed.

b. Tariff rates in effect prior to the Kennedy Round reductions.

c. Totals refer to general imports. Commodity data are based on US imports for consumption.

d. Including US vessels returned to the United States, valued at \$7.9 million.

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thus contributed to the decline of US-Soviet trade but evidently was not the most important factor on the import side.\*

#### Development of US Imports from the USSR Since 1952

4. US imports continued to fall in 1953 to about \$11 million, their lowest postwar level. They increased little until 1965, although US exports rose significantly after 1959. Variations in trade appeared to have been as much a function of politics as of economics. US exports rose following Khrushchev's visit in 1959, but trade fell following the 1962 Cuban crisis. The growth in US-Soviet trade after 1964 coincided with US "bridge-building" efforts but also came at a time when the USSR intensified its export efforts to pay for massive imports of wheat. By 1968, US imports from the USSR reached their highest level in two decades when they were valued at \$58 million. In terms of the US share of total Soviet exports to the industrial West,\*\* however, the 2% occupied by the United States in 1968 was well below the share it occupied in 1948 -- 21%.

5. There were a number of changes in the commodity composition of US imports from the USSR since 1952. Furs no longer were the most important category after 1954. Benzene and platinum group metals emerged as the most significant; after 1958 chrome ore reappeared. All of the above commodities are imported into the United States duty free and are thus not subject to tariff discrimination. By 1963 benzene disappeared from the US import list and platinum group metals became the most important category of US imports from the USSR and remain so to date. US imports of Soviet gem diamonds are now increasing. Not all US imports from the USSR fall into the nondiscriminatory tariff category. Several new commodities appeared in the late 1960s where the 1930 rates are higher than the MFN rates, such as titanium, nickel, and glass. Thus far, however, the value of such imports has been small.

\* The drop in US exports reflected sharply reduced shipments of US machinery to the USSR.

\*\* Industrial West, developed West, and West are used interchangeably throughout this memorandum.

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6. Since the revocation of MFN treatment, US imports from the USSR have been either duty free or, if dutiable, the rates have been generally low or not significantly different from MFN rates.\* Duty-free goods entering the United States from the USSR in 1968, for example, accounted for about 85% of total US imports from the USSR (see Table 3). These goods fall largely in the categories of raw materials and semimanufactures, the same categories which dominate Soviet exports to the industrial West as a whole.

7. Soviet exports to the industrial West have increased more or less steadily since 1958 in contrast to the development of Soviet exports to the United States. Soviet exports to the West exceeded \$2 billion in 1968, about three times the level of 1958. Most of the commodities that the USSR exports to other developed Western countries are not exported to the United States, partly because of denial of MFN treatment but also because of US embargoes, quota restrictions, lack of demand, and other reasons. If the United States granted MFN treatment to the USSR and lifted sanctions imposed on Soviet goods at the height of the cold war, such as the embargo on furs, the USSR probably would attempt to expand exports of some of the commodities now being exported to other countries in the West as well as goods exported to the United States prior to 1952.\*\*

Possible Soviet Exports to the United States

*Machinery, Equipment, and Consumer Goods*

8. Soviet exports would fall largely into the categories of raw materials and semimanufactures, as is the case for the West as a whole. Soviet manufactured goods are generally of poor quality and noncompetitive in the West. The USSR has had negligible success in marketing machinery and equipment in Western Europe and Japan. Of the

\* Even before the US withdrawal of MFN treatment from the USSR, duty-free or low-duty goods were predominant in US imports from the USSR, although not to the extent that they have been since 1951.

\*\* There is a precedent in the case of Poland. Restoration of MFN treatment to Poland in 1960 apparently stimulated Polish exports to the United States to a considerable extent.

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Table 3

US Imports from the USSR and Applicable Tariff Rates a/

	Million US \$ <u>b/</u>			Percent		
	1958	1963	1968	1930 Rate	MFN Rate Prior to Kennedy Round	MFN Rate 1968
<i>Total imports</i>	17.5	21.2	58.4			
Sausage casings	0.1	0.1	Negl.	Free	Free	Free
Caviar	0.2	0.2	Negl.	30	30	27
Shrimp, shell on	--	--	0.1	Free	Free	Free
Hides and skins, except furs	--	--	0.2	Free	Free	Free
Furs, undressed	6.3	6.8	4.6	Free	Free	Free
Furs, dressed	Negl.	Negl.	0.1	25	5½	4½
Cotton linters and cotton waste	0.6	0.5	0.7	Free	Free	Free
Bristles	0.2	0.2	0.5	0.6	0.2	0.1
Animal hair, unmanufactured	0.1	Negl.	Negl.	Free	Free	Free
Licorice root	0.3	0.7	0.5	Free	Free	Free
Chrome ore	--	3.5	7.3	Free	Free	Free
Ash and residue-bearing nonferrous metals <u>c/</u>	--	--	1.3	Free-40	Free-20	Free-18
Platinum	1.8	2.5	1.3	Free	Free	Free
Palladium	0.9	4.0	21.0	Free	Free	Free
Rhodium	--	1.6	2.4	Free	Free	Free
Silver bullion and other platinum subgroups	--	--	0.6	Free	Free	Free
Nickel and nickel alloys, unwrought	--	--	1.3	2	1	Free

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Table 3  
US Imports from the USSR and Applicable Tariff Rates a/  
(Continued)

	Million US \$ <u>b/</u>			Percent		
	1958	1963	1968	1930 Rate	MFN Rate Prior to Kennedy Round	MFN Rate 1968
Titanium, unwrought, waste and scrap <u>c/</u>	--	--	0.9	25	20	19½
Benzene	5.9	--	--	Free	Free	Free
Naphthalene	0.5	--	--	Free	Free	Free
Pyridine	0.2	0.1	--	Free	Free	Free
Sodium chromate and dichromate	--	--	0.8	24	24	21
Drawn or blown glass, unworked	Negl.	Negl.	1.3	38-71	19-36	19-36
Plywood, without a face finish	--	Negl.	0.2	40-50	15-17	13-15
Diamonds, unset, unstrung	--	0.2	10.3	10	8-10	7-9
Emeralds and other precious stones, uncut	--	--	0.6	10	3-8	2-7
Metalcutting machine tools, excluding gear-cutting	--	--	0.1	30	12-15	10½-13
Other	0.4	0.8	2.3	N.A.	N.A.	N.A.

a. Rates are given in ad valorem equivalents for items subject to specific duties.

b. Rounded to the nearest \$100,000.

c. Tariffs on nonferrous scraps and waste (except for copper) were suspended on a temporary basis on 30 June 1964. The suspensions subsequently have been renewed and are effective through 30 June 1971.

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total of \$2.1 billion in exports to the developed West in 1968, for example, exports of machinery and equipment were valued at \$55 million, of which \$14 million went to the captive Finnish market. The greatest Soviet success in this category has been metalcutting machine tools which were valued at \$11 million in 1968. US imports of Soviet machine tools have averaged about \$150,000 annually since 1966. The current tariff differential is considerable and more might be sold with MFN treatment. Soviet hydrofoils might also find a substantial market in the United States (the current US tariff differential between the 1930 and MFN rates for pleasure craft is significant and will increase as Kennedy Round reductions are implemented), but there are some indications of Soviet supply difficulties. The USSR also sells a few million dollars worth of passenger cars in Western Europe. Limited sales success in Western Europe and lack of sales in the United States are a function of quality; the US tariff differential is small.

9. Soviet manufactured goods of the consumer variety also suffer generally from poor quality. Soviet exports of such goods to the developed West in recent years have averaged about \$30-\$40 million annually. An important commodity in this category, cotton textiles, would not be affected by provision of MFN treatment to the USSR, however, because of US nontariff restrictions on imports. MFN treatment might bring in more Soviet carpets and watches than the few thousand dollars' worth now being imported from the USSR. Soviet exports of carpets to the West totaled some \$3 million in 1968, and of watches and clocks, about \$5 million. The major consumer item exported by the USSR to the West is undressed fur. Such exports typically come to \$50-\$60 million annually, the United States buying about 10% of the total. There are no US duties on undressed furs, but, as noted above, seven specific types are embargoed. It is assumed that this embargo would be dropped if MFN treatment were given to the USSR and an additional several million dollars worth of Soviet furs might be imported annually as a result. There is a higher 1930 tariff rate on dressed furs, but Soviet dressed skins have virtually no market in the West, presumably because of the quality factor.

10. Food items generally account for the largest share of Soviet consumer goods exports to

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the developed West, averaging about \$140 million in 1967-68. About one-fourth is grain which has no market in the United States. Another one-fourth consists of vegetable oil. Significant tariff differentials exist between the 1930 rate and the MFN rate for most vegetable oils, and additional Soviet exports to the United States might be forthcoming. Roughly another one-fourth consists of fish and fish products, but less than a half million dollars worth is imported by the United States from the USSR. The chief item in this group currently imported by the United States from the USSR is shrimp which comes in duty free and would not be affected by MFN treatment. Other Soviet specialties such as crabmeat and caviar have a tariff differential that began in 1970, but up to now have not been subject to tariff discrimination. Vodka nets the USSR less than \$100,000 in the United States. The 1930 duty is four times that of the MFN duty and presumably considerably more vodka would come into the United States with MFN treatment.

*Fuels*

11. The major Soviet export to the developed West is petroleum which was valued at more than \$500 million in 1968 and accounted for almost one-fourth of total Soviet exports to the West. There is a tariff differential on both crude oil and oil products, but in the event that MFN treatment is provided, quota restrictions would keep all Soviet oil out of the United States except for residual fuel oil. Small quantities are, in fact, now being imported from the USSR -- about \$1 million worth in 1969.\* Given the growing demand in the United States for residual fuel oil with low sulfur content, imports of such oil from the USSR might increase substantially. However, with the extraction problems the USSR is now having and existing export commitments, including those to hard currency countries, substantially increased sales to the United States may not be forthcoming. Coal and coke provide the USSR with about \$100 million in earnings from industrial Western countries, but the United States imports only \$3.5 million annually, largely from neighboring Canada.

\* *The 1930 duty added about 9% to the Soviet price. With MFN treatment, the duty would have added 2% to 4%.*

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*Wood and wood products*

12. Softwood lumber is a major Soviet export item to the West, earning the USSR about \$140 million in 1968. Currently the 1930 duty is ten times higher than the MFN rate; by 1972 the MFN rate will be zero under the Kennedy Round reductions, the 1930 rate remaining at \$4 per 1,000 board feet (bf). At the present time, virtually all of the \$500 million in softwood lumber imported by the United States comes from Canada, a dependence which may be as much a function of custom and convenience as of price. It is doubtful, however, that the USSR will be able to compete, given the cost of transporting the lumber, unless prices rise to the unusually high levels of late 1968 and early 1969.\* Moreover, Soviet exports of softwood lumber to the industrial West have declined in recent years, reflecting supply constraints, among other factors. The USSR can expand output to meet growing export demand only if substantial investment in the lumber industry is made. At present, however, such investment is likely only under special arrangements with other countries, such as the Soviet-Japanese timber project in Siberia. Value-added items such as plywood might have more success than lumber; in fact, the United States began to import some Soviet plywood in 1967 and imports reached about \$150,000 in 1968. Soviet exports of plywood to the West have averaged about \$15 million annually in the last few years. Soviet exports of pulp to the West are small -- about \$12 million in 1968. Pulp is duty free in the United States but imports from the USSR have not yet materialized.

\* Official US statistics showed that the price of "17 representative" types of softwood lumber, f.o.b. West Coast, reached \$116 per 1,000 bf at the end of 1968 and increased further to roughly \$140 per 1,000 bf in March 1969 before prices declined. The current price is between \$70 and \$80 per 1,000 bf. The Soviet f.o.b. price (unit value of exports) for exports to the United Kingdom was about \$80 per 1,000 bf in 1968. The UK c.i.f. price of softwood imports (heavily weighted by Soviet lumber) in 1968 was more than \$100 per 1,000 bf and about 10% higher in 1969.

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**CONFIDENTIAL***Cotton*

13. Cotton fiber is traditionally a major Soviet export to the industrial West. In recent years the value of such exports has exceeded \$100 million. There is no US duty on cotton under 1-1/8" staple length but there is a significant differential for longer staple cotton. US imports of cotton, however, are subject to quota restrictions which effectively keep out Soviet cotton. Less than \$1 million in cotton linters and waste (duty free) are imported into the United States from the USSR annually, apparently of the type not subject to restrictions.

*Ores and metals*

14. Soviet exports of metallic ores and concentrates to the industrial West average about \$50 million annually. These exports consist principally of chrome, manganese, and iron ores. Chrome ore is duty free and Soviet exports to the United States were resumed eight years after the USSR discontinued exports of chrome and manganese ores. The United States has been importing \$6-\$7 million in chrome ore annually from the USSR in recent years and the USSR now accounts for about one-third of US imports, but about three-fourths of high-grade chrome ore imports.\* The USSR has not resumed exports of manganese ore to the United States and the latter now has ample sources of supply which provide the United States with high-grade ores. The significant tariff differential may also have influenced the USSR to refrain from exporting manganese to the United States.\*\* Iron ore is duty free but Soviet iron ore, whose quality is not among the best, has never been shipped to the United States. As with manganese ore, principal US sources have been developed by US capital. The tariff differential for scrap is small and US imports from all sources are negligible -- \$13 million in 1968. MFN treatment would provide little impetus to Soviet exports to the United States.

\* More than 46% of chromic oxide content.

\*\* The MFN tariff duty on manganese ore is temporarily suspended; the 1930 rate of 1¢ per pound of manganese content is equivalent to a 50% ad valorem tariff based on average US import prices in 1969.

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15. The USSR reports exports of metals to the industrial West of about \$200 million annually, roughly divided between ferrous and nonferrous metals.\* Pig iron, the principal item of Soviet exports of ferrous metals to the West, has fallen off in recent years, amounting to about \$40 million in 1968. There is a significant tariff differential on pig iron, but MFN treatment would probably stimulate Soviet exports\*\* very little because of the small quantities imported by the United States from all sources. The USSR also exports some sheet steel to the West, chiefly in primary forms. Exports to the West in 1968 amounted to about \$12 million. Total US imports run into the hundreds of millions of dollars annually. The 1930 rate is twice that of the MFN rate, and assuming a supply capability, small quantities might be imported from the USSR if MFN treatment is granted. Some ferroalloys might also be imported from the USSR. US tariff rates for these items vary, but in general there is a substantial differential. US imports in 1968 were only \$50 million; Soviet exports to the West were approximately \$13 million.

16. Official Soviet statistics indicate that the USSR exported \$117 million in nonferrous metals to the West in 1968, but this figure probably excludes exports of platinum group metals. The United States is a major buyer of Soviet platinum group metals, principally palladium. US imports of these metals in 1968 were about \$120 million of which roughly \$25 million originated in the USSR. The USSR accounted for about 40% of US palladium imports in that year, but only about 3% of platinum imports. The USSR produces more than half of the world's supply of platinum and the US demand for platinum is expected to rise *inter alia*, because of the need for platinum to produce high octane gasoline that would not release significant amounts of pollution into the air. Because Soviet exports

\* The stated value of exports of metals understates actual shipments because Soviet exports of some non-ferrous metals, particularly those of the platinum group, are not recorded in Soviet trade statistics publications.

\*\* The \$1 million in US imports of Soviet pig iron in 1965 resulted in a dumping complaint.

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of platinum have tended to be sensitive to price movements, increasing US demand and prices might attract more Soviet platinum.

17. Other noteworthy Soviet exports of non-ferrous metals to the industrial West include aluminum, nickel, titanium, and copper (primary forms, scrap or sponge). The tariff differentials for these metals are not significant and, in any case, have not kept Soviet nickel and titanium out of the United States. Soviet exports of titanium sponge to the United States have increased and were valued at more than \$1 million in 1969 -- more than 10% of US imports. The US Tariff Commission has found that the titanium has been sold at dumping prices and further shipments have been held up pending notification of penalties by the US Treasury Department. Soviet exports of nickel to the United States began in 1968, apparently in response to higher prices. US imports of Soviet nickel were valued at about \$1.3 million in 1968 and increased to more than \$4 million in 1969. The tariff differential added about 2% to the cost of the nickel. Supply limitations have thus far restricted the amount of Soviet copper sold in the industrial West (none exported to the United States) and these limitations are expected to continue for some time. Aluminum imported by the United States originates chiefly in Canada, but there are numerous marginal suppliers, including Poland (which is granted MFN treatment). The tariff differential is significant for unwrought aluminum and the granting of MFN treatment might lead to US imports of small quantities of aluminum from the USSR.\* The USSR exports about \$30 million annually to the West.

*Miscellaneous items*

18. The USSR sells about \$80 million in chemicals and fertilizers to the West annually, chiefly basic chemicals and fertilizers rather than advanced products such as plastics. Few Soviet chemicals are exported to the United States. Benzene (duty free) was once a major Soviet export to the United States, but the USSR now exports

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\* Small quantities of Soviet aluminum scrap and waste have been imported by the United States in the past.

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only small quantities to the West and the United States imports very little. Small amounts of Soviet sodium chromate and dichromate (no differential until 1970) are imported by the United States (about half of the \$2 million imported from all sources in 1968). Of the fertilizers exported by the USSR, potassium fertilizers are important but these are duty free in the United States and none have come from the USSR thus far.

19. US import statistics indicate that there have been no tobacco imports from the USSR since the revocation of MFN treatment.\* The tariff differential is significant, but MFN treatment to the USSR may not generate exports of Soviet tobacco to the United States; only a few million dollars worth are exported by the USSR annually. Soviet flat glass has been imported by the United States for several years. The tariff differential is significant and MFN treatment may result in larger exports; the United States now accounts for half of total Soviet exports. Soviet crude asbestos has not been exported to the United States since it was cut off in 1951. It is duty free but US interests control the sources of supply in Canada, which accounted for more than 90% of US imports in 1969.

20. Gem diamonds might be the Soviet Union's best friend. They have become a significant hard currency earner for the USSR in recent years, with total exports exceeding \$150 million in 1969. Most go to the United Kingdom but about \$10 million worth are imported by the United States annually. The tariff differential was of little significance until 1970 when the MFN rate fell to 5 1/2%-7% compared with the 1930 rate of 10%.\*\* The extension of MFN treatment, therefore, could result in increases in Soviet diamond exports to the United States.

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**CONFIDENTIAL****Probable Impact on US Imports from the USSR**

21. The restoration of MFN treatment to the USSR (and the removal of other import restrictions directed against the USSR) would not in itself clear the way for a significant volume of Soviet exports to the United States. As indicated above, the commodities which earn the USSR substantial quantities of hard currency in other developed Western countries would be largely excluded from the United States because of quota restrictions (oil and cotton), lack of US import demand (coal and coke), or because the Soviet product would not be competitive in terms of price without evoking complaints of dumping (softwood lumber). The outlook is mixed with respect to Soviet ores and metals. Soviet exports of ores are negligible and the United States already imports Soviet chrome ore which comes in duty free. Soviet exports of steel are also small and the US market for pig iron is limited. In the nonferrous metals category, the United States now imports substantial quantities of Soviet platinum group metals duty free. Copper and aluminum are possible candidates for US imports from the USSR, but Soviet exports to the West are not large. The tariff differential on nickel is small and US imports from the USSR have been rising.

22. Increments in US imports from the USSR resulting from the provision of MFN treatment would be the result of small increases of a number of commodities. Among the most likely candidates for expansion would be diamonds, certain furs, wood products, fish and fish products, vodka, plate glass, and a few consumer items such as carpeting. Increased imports of Soviet hydrofoils might also be forthcoming. The outlook for residual fuel oil is uncertain. Current imports from the USSR are on the order of \$1-\$2 million annually. If the USSR can supply low-sulfur fuel oil, expansion to 5 to 10 times that amount is possible in a few years' time.

23. Aside from the limited US demand for Soviet commodities, there are other factors which might impede the growth of Soviet exports to the United States. Thus, the entry of Soviet goods into the US market which will have to be achieved in some cases by shading prices below the prevailing market

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prices might evoke complaints of dumping either by domestic producers or by foreign competitors.\* Other factors which would limit the growth of Soviet exports to the West are the hostility of many Americans toward Soviet-made products and the reluctance of many US firms to deal with the USSR. In addition, there is the demonstrable lack of Soviet ability to sell manufactured goods in highly developed markets such as exist in the United States as well as in other developed Western countries. Finally, there exists a genuine fear on the part of many in the United States of becoming dependent on Soviet supplies. The significant proportion of US imports of high-grade chromite now coming from the USSR is a case in point.

24. No dollar value can be estimated for Soviet exports to the United States following restoration of MFN treatment. The current level of \$50-\$60 million is two to three times higher than five years earlier without benefit of MFN treatment, but most of this growth resulted from larger Soviet exports of duty-free goods. A growth of similar proportions in the next five years with MFN status appears to be reasonable. In any event, there seems little likelihood that there will be any quick growth in Soviet exports to the United States, an assessment also made recently in an article on Soviet-American trade by a high Soviet foreign trade official. Growth will be slow in coming, much as in the case of Poland to whom MFN treatment was restored in 1960.

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Conclusions

25. The revocation of MFN status for the USSR in 1951 was only one of several reasons for the decline in US imports from the USSR in the early postwar period. Cold war actions, including the Soviet termination of exports of manganese and chrome ores to the United States and the US embargo on certain furs from the USSR, also contributed. Few items were, in fact, affected by the change in tariff status because most of the Soviet products imported by the United States were duty free or were not otherwise subject to tariff discrimination. Since that time most Soviet goods exported to the United States have fallen into these two categories.

26. If MFN treatment is restored to the USSR, it is assumed that goods now subject to US tariff discrimination, but which are currently sold to other developed countries of the West, would be candidates for export to the United States. The major Soviet exports to the industrial West, including crude oil, cotton, and softwood lumber among others, probably would not be exported to the United States, however, because of quota restrictions, lack of US demand, supply constraints in the USSR (such as softwood lumber), or Soviet inability to compete in price without evoking dumping charges. Those items which might be included in expanded Soviet exports to the United States would be as much a mixture as now, such as diamonds, furs, wood products, hydrofoils, fish, vodka, and other items.

27. Any expansion of Soviet exports following restoration of MFN status would not be immediate. Aside from the fact that it will take time to explore the US market, there are other impediments to the growth of Soviet exports to the United States, including some public hostility to Soviet products and a reluctance by many US firms to handle Soviet goods. Entry of Soviet goods into the US market will be achieved in some cases by shading prices below those then prevailing, and dumping charges may result. There is also a fear among many that the United States might become dependent on Soviet supplies. The most significant impediment of all, however, may be the inability of the Soviet traders to compete in the highly sophisticated US market.

## APPENDIX

Exports of Selected Goods by the USSR to the Developed West and US Imports of These Goods  
from the World in 1968, and Applicable US Tariff Rates

Commodity <sup>a/</sup>	Applicable US Tariff Rates				Million US \$	
	1930	MFN: Kennedy Round Staged Rates			USSR Exports	US Imports
		Prior to KR	1970	1972		
Metalcutting and working machine tools	301-401	121-201	81-141	61-101	11	166
Passenger cars, new	101	6.51	4.51	31	5	2,782
Ships, pleasure craft b/	251-451	41-201	2.51-141	21-101	13 c/	19
Crude oil d/ (gal)	0.5c	0.125c-0.25c	0.125c-0.25c	0.125c-0.25c	401	1,203
Residual fuel oil (gal)	0.5c	0.125c-0.25c	0.125c-0.25c	0.125c-0.25c	68 e/	803
Gasoline and diesel fuel d/ (gal)	2.5c	1.25c	1.25c	1.25c	120 e/	10
Asbestos, crude	Free	Free	Free	Free	16	73
Asbestos, worked	401	81	5.51	41	n.r.	2
Manganese ore f/ (lb of Mn cont)	1c	0.22c	0.17c	0.12c	6	46
Chrome ore	Free	Free	Free	Free	21	18
Iron ore	Free	Free	Free	Free	17	454
Pig iron (ton) g/	51.25	20c	8c	Free	40	30
Ferrous scrap (ton) g/	Free-75c	Free-37.5c	Free-26c	Free-18c	16	13
Sheet steel	201	101	91	91	12	632
Titanium, unwrought, and waste and scrap	251	201	18.51	181	n.r.	10
Magnesium, includes waste and scrap	1001	401	281	201	5	3
Copper, crude (lb of Cu cont)	4c	1.7c	1.1c	0.9c	15	228
Aluminum, unwrought (lb)	7c	2.5c	1.7c	1.2c	32	167
Nickel, unwrought (lb)	3c	Free	Free	Free	17 e/	201
Lead, unwrought h/ (lb of Pb cont)	2.125c	1.0625c	1.0625c	1.0625c	2	82
Zinc, unwrought h/ (lb)	1.75c	0.7c	0.7c	0.7c	2	76
Nonferrous scrap <sup>1/</sup>	Free-1001	Free-401	Free-281	Free-201	n.r.	56

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Commodity <sup>a/</sup>	Applicable US Tariff Rates				Million US \$	
	1930	MFN: Kennedy Round Staged Rates			USSR Exports	US Imports
		Prior to KR	1970	1972		
Platinum group metals	Free	Free	Free	Free	n.r.	121
Of which:						
Platinum	Free	Free	Free	Free	n.r.	54
Palladium	Free	Free	Free	Free	n.r.	47
Rhodium	Free	Free	Free	Free	n.r.	9
Benzene	Free	Free	Free	Free	2	7
Naphthalene	Free	Free	Free	Free	3	1
Potassium fertilizers	Free	Free	Free	Free	17	70
Sodium chromate and dichromate (lb)	1.75¢	1.75¢	1.2¢	0.87¢	3	2
Glass, drawn or blown, not colored 1/ (lb)	1.5¢-2.8¢	0.7¢-1.4¢	0.7¢-1.4¢	0.7¢-1.4¢	1	41
Softwood lumber (1000 bf)	\$4	25¢-\$1	10¢-40¢	Free	137	494
Plywood	75¢-50¢	15¢-20¢	10¢-20¢	7.5¢-10¢	16	39
Woodpulp, sulfate and sulfite	Free	Free	Free	Free	12	360
Cotton fiber, staple under 1-1/8 in (lb)	Free	Free	Free	Free	102 k/	7
Cotton fiber, staple over 1-1/8 in (lb)	7¢	1.75¢-3.5¢	1.75¢-3.5¢	1.75¢-3.5¢		8
Cotton linters and waste	Free	Free	Free	Free	1	9
Raw silk, natural	Free-35¢	Free-14¢	Free-9.5¢	Free-7¢	Negl.	18
Silk wastes, natural	Free-50¢	Free-20¢	Free-14¢	Free-10¢	3	1
Bristles (lb)	3¢	1¢	0.75¢	0.75¢	3	8
Furs, undressed 1/	Free	Free	Free	Free	54	103
Furs, dressed 1/	25¢-40¢	5.5¢-20¢	3.5¢-14¢	2.5¢-10¢	1	12
Tobacco, cigarette leaf, unsteamed (lb)	35¢	12.75¢	12¢	11.5¢	6	122
Sunflower seeds (lb)	2¢	0.8¢	0.55¢	0.4¢	16	n.r.
Sunflower oil, not edible (lb)	4.5¢	1.7¢	1.2¢	0.9¢	20	Negl.
Sunflower oil, edible (lb)	4.5¢ + 20¢	1.8¢ + 8¢	1.2¢ + 5.5¢	0.9¢ + 4¢		
Shrimp, shell on	Free	Free	Free	Free	n.r.	112

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Commodity <sup>a/</sup>	Applicable US Tariff Rates				Million US \$	
	1930	MFN: Kennedy Round Staged Rates			USSR Exports	US Imports
		Prior to KR	1970	1972		
Canned crabmeat	22.5%	22.5%	15.5%	11%	15	5
Caviar	30%	30%	21%	15%	4	1
Refined sugar <sup>m/</sup> (lb)	1.28¢-1.99¢	0.43¢-0.66¢	0.43¢-0.66¢	0.43¢-0.66¢	5	640 <sup>n/</sup>
Vodka (gal)	\$5	\$1.25	\$1.25	\$1.25	Negl.	n.r.
Cotton fabric, not bleached, not colored <sup>o/</sup> (lb)	10¢ + 41.5%	5¢ + 27.5%	4.28¢ + 23.6%	3.8¢ + 21%	8	75
Carpeting	30%-90%	7%-45%	6%-30%	5.5%-22.5%	3	63
Matches <sup>p/</sup>	24%	14%	14%	14%	5	63
Clocks and clock movements <sup>p/</sup>	115%-134%	58%-74%	40%-52%	28%-37%	2	19
Cameras, still	20%-45%	12%-25%	8%-17%	7.5%-12.5%		49
Gem stones, cut but not set						
Of which:						
Diamonds, not over 0.5 carat	10%	8%	5.5%	4%	g/	182
Diamonds, over 0.5 carat	10%	10%	7%	5%		43
Emeralds	10%	3%	1%	Free		11
Rubies and sapphires	10%	8%	5.5%	4%		10

- a. For commodities subject to specific or compound (such as specific plus ad valorem) duties, the unit on which the specific duty is based is given.
- b. Ships for commercial use are not subject to US tariffs.
- c. Including ships for commercial use.
- d. Except for residual fuel oil, imports of crude oil and oil products are subject to quotas.
- e. 1967 exports; not identified in 1968 Soviet statistics.
- f. MFN duty (but not 1930 duty) on manganese ore was suspended on a temporary basis on 30 June 1964; renewed annually, this suspension is due to expire on 30 June 1970.
- g. Plus additional duties based on the content of alloying materials.
- h. Quotas provided for certain items effective 21 November 1965.
- i. In some cases duty has been temporarily suspended.

- j. MFN duty temporarily increased to 1.3¢ to 2.4¢ per lb effective 11 January 1967.
- k. Length of staple not specified; US imports of cotton are subject to quotas.
- l. Excludes furs from silver, black, or platinum fox; the 1930 tariff is 50% and the MFN rate is: 37.5% prior to KR, 26% in 1970, and 18.5% in 1972.
- m. Imports of cane and beet sugar are subject to quota under the Sugar Act of 1948. At present, there is a temporary additional duty of 0.53¢ per lb; unless extended, the tax will terminate on 30 June 1972.
- n. Includes unrefined sugar.
- o. Imports of cotton textiles are subject to quotas.
- p. The US tariff schedule on watches and clocks is very complex. Tariff rates given here are estimates based on the type of watch or clock likely to be imported by the United States from the USSR. The MFN duty on watches has been increased temporarily to 21%.
- q. The USSR does not indicate its total exports of precious stones, but provides only partial data. Most precious stones are exported to the United Kingdom but are not specifically identified.

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